



**United States Department of Agriculture
Rural Development
Montana State Office**

November 1, 2005

**MT AN No. 251
(1944-I & HB-1-3550)**

TO: All Housing and Area Office Staff
All Montana Approved 523 Grantees

SUBJECT: 502 Loan Disbursement Process for Mutual Self-Help (MSH) Grantees

PURPOSE/INTENDED OUTCOME:

This Administrative Notice (AN) provides guidance to 523 grantees and Rural Development (RD) staff on roles and responsibilities of each party through the construction draw process. It also specifies required documentation for submission of draw requests. The intent of this AN is to provide consistency throughout the state.

COMPARISON WITH PREVIOUS AN:

There has not been an AN previously issued on this topic.

BACKGROUND:

Regulatory reference for establishing draw processes, draw accounting, and draw documentation is found in several locations. They are as follows:

1944-I §1944.425 Handling and accounting for borrower loan funds. Grantee will be required to administer borrower loan funds during the construction phases. The extent of their involvement will depend on the experience of the grantee and the amount of authority delegated to them by the Housing Programs Director in accordance with §1924.6(c) of Subpart A of Part 1924 of this chapter. Training should include Rural Development's non-discrimination policies in receiving applications.

EXPIRATION DATE:

November 1, 2006

FILING INSTRUCTIONS:

Following RD Instructions
1944-I and HB-1-3550

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1924-A §1924.6(c) Mutual Self Help Method. The mutual self-help method is performance of work by a group of families by mutual labor under the direction of a construction supervisor, as described in 7 CFR part 3550. The ways of doing the work, buying materials, and contracting for special services are like those used for the borrower method. Materials can be bought jointly by the group of families, but payments will be made individually by each family. In the case of RD loans to families being assisted by Self-Help Technical Assistance (TA) grantees in accordance with subpart I of part 1944 of this chapter, the Area Director may countersign checks for materials and necessary contract work made payable directly to the TA grantee, provided the Housing Programs Director determines that: (Revised 01/23/03, Special PN.)

- (1) The grantee acts in the same capacity as a construction manager in the group purchase of materials and services.
- (2) The grantee has an adequate bookkeeping system approved by the Housing Program Director to assure that funds in each RH account are properly distributed and maintained.
- (3) The grantee receives no compensation in the way of profit or overhead for this service and all discounts and rebates received in connection with the purchase of materials or services are passed on to the participating families.
- (4) The grantee has a record-keeping system which shows that the costs of the materials and services were prorated to each borrower's account in relation to the actual materials and service used by each borrower.

RD AN #4094 Supervised Bank Accounts (SBA's) and Custodial Accounts used in Conjunction with Mutual Self-Help Technical Assistance Grants.

In a recent Management Control Review of Section 523 Mutual Self-Help Technical Assistance Grant program, it was noted that there was a lack of consistency in how states were handling the SBA's and in fact there was often a lack of consistency between offices within a state.

Custodial Accounts. In an effort to alleviate the field office workload, the National Office will allow the use of Custodial Accounts to eligible Mutual Self-Help Technical Assistance Grantees.

Some organizations that receive section 523 Technical Assistance (TA) funds to administer a MSH program may use this alternative method of accounting for their participating families' 502 loan funds. As in the traditional method of bill-paying, SBA's are established for each participating family and checks drawn on these accounts require signatures from both Rural Development and the families. The primary differences are in the number of checks required to be written from these accounts and the number of checks received by the vendor. In the custodial bill-paying system, the section 523 TA organization maintains a separate custodial bank account. Throughout the construction process, some of each family's individual 502 loan funds are deposited into this bank account and held in trust for the families until the funds are disbursed to various vendors. The custodial bill-paying process works in the following way: On a regular basis (weekly, bi-weekly or monthly), invoices for construction

expenses are tabulated for each family. One check from each family is made payable to the 523 grantee in the appropriate amount to cover payment of these invoices. These checks are deposited into the custodial bank account. One check is then made out to each vendor from the custodial bank account in payment of the appropriate families' costs. As indicated above, the advantage of the custodial method of bill paying is a major reduction in the number of checks that must be written and co-signed for each family. For a grantee with more than one group building at a time, this can represent a major savings in time for both the section 523 grantee that must prepare all of the checks and the RD staff who must sign all the check.

This AN sets forth the guidelines for approval of MSH grantees who desire to independently maintain SBA accounts (SHOULD STATE CUSTODIAL ACCOUNTS) for section 502 participants. Approval for each grantee is optional and at the discretion of the RD State Office. We encourage each state to adopt this practice, as appropriate, to ensure uniform bill-paying policy implementation. *The AN goes further to identify criteria for allowing grantees to utilize the custodial method of bill paying.*

IMPLEMENTATION RESPONSIBILITIES:

It is the responsibility of approved 523 grantees to comply with all provisions of the Self Help Technical Assistance Grant Agreement and Rural Development (RD) 1944-I regulations. Part of the grantee's responsibility is to keep accurate records of each participating families' loan accounting. This is done in the following manner.

1. The grantee has a financial management system that meets certification requirements of the grant agreement.
2. The grantee has an adequate bookkeeping system in place to assure funds deposited in the custodial account are designated to each 502 borrower to track loan disbursements.
3. The grantee's financial management system can track the cost of all materials and services and allocate said costs to individual 502 borrowers.
4. The grantee's financial management system can generate reports showing "Budget to Actual" costs and expenditures by construction line item for individual 502 borrowers.
5. Copies of all purchase orders, invoices, and bills need to be broken down by family and maintained in the grantee's records.
6. Lien waivers for all expenditures need to be maintained in the grantee's records.

Grantees that are not currently utilizing the custodial account method of bill paying should plan to implement this method with their next build.

When grantees make a 502 loan draw request, the format and documentation should be as follows.

1. Grantees should submit a cover letter that identifies the draw number, the amount of each family's draw and the total draw amount with the following required attachments.
2. Grantee should provide the Area Office with a report that accumulates and identifies each draw, broken down by family and line item for each expenditure. See attached sample.
3. Grantee should attach a "Budget Versus Actual" report generated from their financial management system. This report must be broken down by family with construction line item cost allocations. (Most financial management systems generate this report.)
4. Grantee should attach a signed authorization from each family for the draw. This indicates the amount drawn to date, the draw request, and the expenditures for each draw. Most financial management systems generate this report by family. Families should receive updated reports on a regular basis so that they are aware of budgetary expenditures throughout the building process. Families must approve loan draw requests but are not required to approve actual payments to vendors. By approving the loan draw request they are approving the proposed payment to vendors.
5. The most recent bank statement from the custodial account should be attached.

Note: Purchase orders, bills, and invoices are not required to be attached. Area Office staff should inspect the homes prior to approval and disbursement of the draw request. All checks should be made payable to the grantee's custodial account with a restrictive endorsement. Borrower's loan files, including invoices and bills, will be audited as part of the grantee's annual independent audit in accordance with 1944-I, 1944.422.

Questions concerning this AN should be directed to the Housing Programs Director at 406-585-2551.

W.T. (Tim) RYAN
State Director

Attachment